Senate Budget & Fiscal Review
Senator Steve Peace, Chair

Subcommittee No. 3
on
Health, Human Services, Labor, and Veterans Affairs

Senator Wesley Chesbro, Chair
Senator Ray Haynes
Senator Deborah Ortiz

Catherine Camp, Consultant

May 18, 2002
4 p.m.
Room 4203

AGENDA – Part III

4130 Health and Human Services Data Center

5180 Department of Social Services Automation Projects

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Interim Statewide Automated Welfare System

Issue: The ISAWS consortium is the oldest of the four consortia in the Statewide Automated Welfare System (SAWS). The current contract ends December, 2003. The system is old, and uses proprietary software that is expensive to change. The county consortium members in November voted to end this program, and to plan for county members to move to one of the other consortia. The subcommittee voted to adopt trailer bill language requiring DSS and the Data Center to work with consortium members to determine the steps necessary to ensure that ISAWS migrate expeditiously to one of the remaining SAWS consortia.

The May Revision proposes to reduce the ISAWS maintenance and operations expenditure authority in the Data Center by $1.4 million. The May Revision also proposes to add budget bill language for the ISAWS item to permit automation system funding to be used for the activities of planning for migration of consortium activities, subject to Department of Finance approval and written notification to the Legislature.

The LAO recommends that the proposed Budget Bill language be amended to eliminate the reference to the Feasibility Study Report, substituting "appropriate update to the implementation planning document." This will clarify that the counties and Data Center do not begin a whole new planning effort. Finally, the LAO adds budget bill language stating legislative intent that ISAWS migration costs be included in the appropriate update.

Staff recommendation: Adopt the May Revision changes, with accompanying Budget Bill language as amended by the LAO.

Data Center positions

Issue: The May Revision proposes to reestablish 5 positions that will be abolished July 1, 2002. Specifically, these positions will manage vendor service agreements for the Child Welfare Services/Case Management System; manage the Case Management, Information and Payrolling System reprocurement; provide security and office support for SAWS, and develop personnel exams for the Data Center when its seven-year organizational design demonstration project ends July 2002.

The LAO notes that there are existing vacancies in the Data Center in the units responsible for CWS/CMS and SAWS oversight. They recommend reducing this proposal by the 2 positions for CWS/CMS and SAWS oversight; approving the addition of 3 positions for IHSS/CMIPS and Administrative Services, and reduce the Data Center's expenditure authority by $120,000.

Staff Recommendation: Adopt the May Revision proposal as amended by the LAO.

LEADER

Issue: The Los Angeles Eligibility Automated Determination, Evaluation and Reporting system (LEADER) is one of the four SAWS consortia. The subcommittee reviewed information in March that errors in the computer system during transition created difficulties for aid recipients during the transition to implementation, and that these problems have delayed the adoption of enhancements to the system to reflect state and local legal and regulatory changes, especially for Medi-Cal.

The May Revision proposes an increase of $1.2 million ($400,000 General Fund) for the LEADER to expand the languages used for client notification letters. The item includes budget bill language requiring Department of Finance approval of any agreement to complete the modifications, including the estimate of funding needed, and requiring notification of the Legislature. **The May Revision also redirects $10.0 million ($5.0 million General Fund) in DHS to application modifications to incorporate program changes**. Budget bill language is included in the DHS budget to assure that these funds are not encumbered until DOF has approved a plan for the application modifications, including an estimate of funding needed, and requiring notification of the Legislature. The net budget request is an increase of $1.4 million. This amount is offset by $4.5 million in current year savings resulting from unexpended funds for application modification.

The LAO recommends that the plan for application modifications proposed in the May Revision be amended to include the Welfare Data Tracking Implementation Project system.

Staff recommendation: Recommend that the subcommittee adopt the increase of $1.2 million ($400,000 General Fund) and accompanying budget bill language, amended to meet the suggestion of the LAO.

Welfare Client Data System

Issue: The Welfare Client Data System is one of the four SAWS consortia. The subcommittee adopted the budget for this program, including a reduction against planned expenditures (an increase over current year, however).

The May Revision proposes budget bill language to make one-quarter of the appropriated funds for this project available only after Department of Finance approval of a special project report and notification to the Legislature.

Staff recommendation: Adopt the budget bill language.

Consortium IV

Issue: Consortium IV is one of the four SAWS consortia, and the most recent, still under development. The subcommittee on May 9 eliminated $9 million ($2 million General Fund) from the total budget of $75.5 million ($16.3 million General Fund). The subcommittee adopted placeholder Budget Bill Language to require specific reductions, and to identify risks and risk mitigation necessary to implement the proposed reduction.

The May Revision proposes to eliminate a total of $20.0 million ($5.0 million General Fund) from Consortium IV. Budget bill language is proposed to make approximately one-quarter of the remaining funds available only after Department of Finance approval of a special project report and notification to the Legislature.

Staff recommendation: Adopt the additional cut of $11.0 million ($3.0 million General Fund), to meet the May Revision target; do not adopt the May Revision Budget Bill language but instead adopt the LAO budget bill language that includes risk and risk mitigation in the review.

Case Management Information and Payrolling System (CMIPS) Legal Counsel

Issue: DSS and the Data Center are in the midst of re-procuring the CMIPS project, which provides a payrolling system for the IHSS program. The current system is more than 20 years old, vulnerable, and not adequate to the new IHSS requirements for an employer of record**. DSS proposes to add $150,000 ($100,000 General Fund) for legal consultant services to aid in contract negotiations associated with the CMIPS re-procurement**. The legal consultant will prepare draft solicitation documents, prepare answers to contract inquiries, research pas procurement projects, review legal issues for staff counsel regarding contracts, assist with contract reviews, and provide other reports to assist the process.

Staff recommendation: Adopt the augmentation.

4140 Office of Statewide Health Planning and Development

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

May Revision Reduction to Song-Brown Family Physician Training Program

Issue: The Song-Brown Family Physician Training Program provides funding to institutions for training slots for family physicians, nurse practitioners and physician assistants**. The January budget eliminated $37,000 from the operating expenses and equipment for the Song Brown and Health Professions Career Opportunity Program. In addition, the January budget eliminated $804,000 from Song-Brown, by eliminating special program grants**. These grants are one-time grants to training institutions for curriculum development, expansion of training sites, special outreach for students, and similar items.

The May Revision proposes to further reduce the Song-Brown program by $500,000 General Fund. The Song-Brown program includes two components, in addition to the special program grants already eliminated for the budget year: capitation funding for primary care physician three-year residency training slots ($2.5 million General Fund); and base funding, for nurse practitioner and physician assistant programs ($2.3 million all funds). The reduction is proposed to be levied against the Capitation fund, reducing the amount to $2 million, and will result in the loss of nine primary care physician training slots.

Staff recommendation: Adopt the reduction of $500,000 from Song-Brown.

4170 Department of Aging

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Federal Older Americans Act Funding

Issue: The Federal budget for the current year included increased Older Americans Act funds in the amount of $8.6 million. **The Administration provided a Spring Finance letter to allocate this amount in the budget year. The allocation includes $445,000 for state operations, and $8.1 million in local assistance**.

The Finance letter appropriates the local assistance among the various federal categorical programs, including Supportive Services, Congregate Nutrition, Home Delivered Nutrition, Ombudsman, and Family Caregiver Support, according to the chart as follows.

The request does not provide additional state matching funds for these new funds. There is sufficient overmatch in Nutrition programs to provide for the necessary increases in Supportive Services and Nutrition Programs. The Department expects that local Area Agencies on Aging will provide the match for the Family Caregiver Support programs.

OLDER AMERICANS ACT
FFY 2002 APPROPRIATION COMPARISON TO FFY 2001

Programs	2001	2002	$ Increase	Increase S/O	Increase L/A
Title III:					
Supportive Services (IIIB)	$30,283	$34,764	$4,481	$224	$4,257
Congregate Nutrition (III-C1)	34,747	35,207	460	23	437
Home Del'd Nutrition (III-C1)	14,519	17,298	2,779	139	2,640
Preventive Health (IIID)	2,093	2,071	-22	-1	-21
Family Caregiver (IIIE)	11,360	11,890	530	60	470
Subtotal	$93,002	$101,230	$8,228	$445	$7,783
Title VII:					
Ombudsman (VIIA)	932	1,220	288	0	288
Elder Abuse (VIIB)	471	513	42	0	42
Subtotal	$1,403	$1,733	$330	$0	$330
Total Title III/VII Available	$94,405	$102,963	$8,558	$445	$8,113

The subcommittee has expressed considerable concern about reductions in various home- and community-based services that maintain individuals at home or in the least restrictive environment. The subcommittee has acted to require a Health and Human Services Agency Olmstead Plan that will presumably begin to move the state forward toward developing a framework that can guide reductions or additions of resources in this area. Absent that framework, the subcommittee may want to indicate its intent that long term care activities receive first consideration when local Area Agencies on Aging distribute this money.

Staff recommendation: Adopt the Spring Finance Letter allocating $8.6 million in new federal Older Americans Act funds. Adopt placeholder budget bill language that states legislative intent that Area Agencies on Aging consider targeting new federal Older Americans Act funds in the category of Supportive Services to maintain case management and other in-home services that serve the most impaired aging clients with a support system that allows individuals to remain at home with the supports they need to live safely.

<u>Health Insurance Counseling and Advocacy Program (HICAP) Transfer</u>
Issue: The Governor's Budget included a transfer of $1.7 million to the General Fund from the HICAP Fund. Subsequently, the Administration determined that the proposed transfer would have a negative impact on the HICAP in 2002-03 and thereafter. The May Revision proposes to delete the fund transfer.

Staff recommendation: Adopt the May Revision deletion of the HICAP fund transfer.

<u>HIPAA</u>
Issue: The January budget included an augmentation of $232,000 ($148,000 General Fund) for HIPAA activities. The funds are intended to fund the assessment of the impact of HIPAA on the Department

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the CDA budget conform to the actions the Committee takes on HIPAA elsewhere. Eliminate all funding in the CDA budget for this purpose. Allow CDA to access $200,000 ($130,000 General Fund) from the HIPAA Budget Item**.

4200 Department of Alcohol and Drug Programs

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

<u>HIPAA Implementation</u>
Issue: The January budget included a new item to schedule funds for compliance activities related to the federal Health Insurance Portability and Accountability Act (HIPAA). The funds were originally scheduled in current year in a Control Section combined with other departments; the funds were removed in the January one-time reduction. The January budget scheduled the Department's share of $6 million (half General Fund) in the Department. The funds are intended for contractor assessment, process development, privacy and security assessment, and risk management activities. An FSR has been approved for the work. The May Revision reduces this amount by $1.5 million ($750,000 General Fund).

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the DADP budget conform to the actions the Committee takes on HIPAA elsewhere: Authorize 5 two-year limited term positions, and eliminate all funding in the DADP budget for this purpose. Allow DADP to access $1.9 million ($960,600 General Fund) from the HIPAA Budget Item**.

Federal Block Grant Funds

The federal government provides $235.2 million in Substance Abuse Prevention and Treatment federal block grant funds in the current year. The Department has submitted a spring finance letter augmenting the federal block grant appropriation by $15.3 million in ongoing funds, for a new total of $250.6 million. The spring letter augments the budget by a total of $20.2 million, including $15.3 million from the ongoing increase; $1.9 million remaining from the current year award; and $3 million from last year's block grant award increase inadvertently removed from the Department's base in constructing the budget.

The allocation of these funds is proposed to be:

- $2.4 million for the federally required prevention set-aside for last year's increase;
- $0.6 million for the required HIV set-aside for last year's increase;
- $1.9 million from last year's award for ongoing automation expenditures;
- $15.1 million for county services, including $3.1 million for the prevention set-aside and $0.8 million for the required HIV set-aside;
- $150,000 million for maintenance of the California Outcomes Measurement System
- $120,000 for contracts with the American Indian Training Institute and the Disability Technical Assistance contract

The Assembly acted to designate the expenditure of the $15.1 million for county services, to cover some of the General Fund reductions made elsewhere in this budget.

Staff recommendation: Adopt the Spring Finance letter, including budget bill language that specifies that the $2.1 million in automation projects included in the list above not be spent without the approval of the required planning entities such as TIRU.

May Revision to Drug Medi-Cal

Issue: The May Revision updates costs and caseload for the Drug Medi-Cal program, as follows:

- **Reduce Drug Medi-Cal in the current year by $5.9 million ($2.9 General Fund)**, due to lower utilization, especially in Outpatient Drug Free counseling services.
- **Increase Perinatal Drug Medi-Cal in the current year by $76,000 ($38,000 General Fund),** the result of a modest caseload decline and increased costs.
- **Increase Drug Medi-Cal in the budget year by $2.9 million ($1.4 million General Fund)**; the caseload continues to decline, but costs are expected to increase.
- **Increase Perinatal Drug Medi-Cal in the budget year by $775,000 ($385,000 General Fund)**, due to increases in caseload and cost.

- **Eliminate Reappropriation language in the Budget Bill**. The Drug Medi-Cal program now uses the Medi-Cal estimate methodology, and reappropriation is no longer required.
- **Add Reversion language for 2000 and 2001 Drug Medi-Cal funds, as of June 30, 2002.**

Staff recommendation: Adopt the May Revision cost and caseload increases.

Drug Medi-Cal Trailer Bill Proposal
Issue: The January budget proposed changes in the rate setting methodology for Drug Medi-Cal. One purpose is to permit the Department to set Drug Medi-Cal rates based on data that is 'reasonably reliable and complete cost report data'. The Department believes that current law requires that rates be set only when the data is complete from every county. The language also requires that rate setting be consistent with HIPAA requirements beginning no later than July 1, 2007.

Staff recommendation: Adopt the January Trailer Bill Language streamlining the rate setting for Drug Medi-Cal.

State Incentive Grant Funding: Assembly Conformity
Issue: Community Substance Abuse Prevention Coalitions have existed in California for more than a decade. These coalitions provide a vehicle to bring all elements of the communities impacted by substance abuse together. Relevant members of the community are convened to develop and implement strategic plans to reduce problems associated with alcohol and other drug use and misuse. The purpose is to provide measurable reductions in alcohol and other drug problems in communities.

The Assembly has adopted Trailer Bill language to direct the department to apply for federal funding to support community coalitions, and allows special consideration for community coalitions in the event a grant is secured. The language is as follows:

> The California Department of Alcohol and Drug Programs shall apply for Federal State Incentive Grant funding offered by the Substance Abuse and Mental Health Services Administration, Center for Substance Abuse Prevention. Provided that State Incentive Grant funding is secured and permits subrecipients to include "community coalitions," the Department shall give special consideration to awarding funds to subreceipients which are organized as community coalitions, provided that they meet eligibility requirements. A subrecipient coalition may be part of county or city government, a school district county office of education, or a nonprofit organization.

Staff recommendation: Conform to the Assembly and adopt the Trailer Bill language.

ITEMS FOR DISCUSSION:

Drug Courts

The Drug Court Partnership program, established as a four-year demonstration project, is scheduled to expire at the end of the budget year. 34 counties operate drug courts under this program. The January budget eliminated $4 million associated with the sunset (funds that would have gone out to half the grantees late in the budget year) and an additional $4 million associated with expediting the end of the program by not funding the other half the grantees for their last year.

The subcommittee reviewed evaluation data on the Drug Court Partnership program when it heard this issue in May. The evaluation found that the Drug Court Partnership reduced jail and prison days by three times the cost of the program. The evaluation measured avoided jail and prison costs only, not other criminal justice and health related cost savings. The data was for 26 counties only. The data from this evaluation found that drug courts serving mostly felons demonstrated substantially higher state prison savings than other courts. Three counties specifically (Fresno, Orange and Riverside) operated with 90% of their participants being felons; these three counties saved almost half of all prison day savings in the DADP study.

Subcommittee #4 has review the potential impact on prison expenditures of eliminating the Drug Court Partnership program. They have reduced the Corrections budget by $6.5 million, based on the assumption that this subcommittee will adopt their recommendation, to reformulate the Drug Court Partnership to focus exclusively on felons and to operate at the level of $8 million statewide. In addition, the LAO has suggested changes to the state's asset forfeiture law to generate $10 million at least (see below).

Staff recommendation: **The subcommittee should restore the Drug Court Partnership Program at the level of $8 million for the budget year, and enact placeholder Trailer Bill Language to reformulate the program to focus exclusively on felons, and capture continued evaluative information to assure that the Corrections savings are sustained**.

Asset Forfeiture Changes

The Legislative Analyst's Office (LAO) has proposed a new revenue source to fund alcohol and drug programs to help resolve the federal Maintenance of Effort (MOE) problem for federal block grant funding without creating an additional burden on the state General Fund. The LAO indicates that the Legislature has the option of directing a portion to the state General Fund of the proceeds received from the seizure of assets of illegal narcotics traffickers. This additional General Fund revenue could then be used to offset the cost of restoring alcohol or drug treatment programs. The policy rationale for such changes would be to shift more resources from law enforcement activities to crime prevention by investing in treatment programs, an action that studies indicate can be cost-effective in reducing involvement in criminal activities by persons who would otherwise remain addicted to drugs.

State law currently requires that 24 percent of the more than $21 million in asset forfeiture proceeds now being received each year be deposited in the state General Fund, but all of the $30 million per year in federal asset forfeiture proceeds goes directly to the California agencies involved in these criminal cases. The Legislature could modify state law, as Oregon, Utah, and other states have done, to require that local agencies which receive these funds redirect 15 percent of their federal asset forfeiture proceeds to the state General Fund. In its adoption of a budget trailer bill, the Legislature could further modify state law to modify the allocations provided to local law enforcement agencies and prosecutors to redirect an additional share of the asset forfeiture proceeds obtained under state authority to the state General Fund. These two actions in combination could generate an additional $10 million in state resources that could be used to restore state funding reductions in drug or alcohol treatment programs and help to address the state's MOE problem.

In order to do this, the subcommittee could adopt placeholder trailer bill language that amends Health and Safety Code Section 11489, the current state law which governs the distribution of asset forfeiture proceeds, to:

- Increase the proportion of the state asset forfeiture proceeds that is to be deposited in the state General Fund. The share of resources going to the state General Fund would increase from the present 24 percent to 47 percent.
- Make proportional and equivalent decreases in the proportion of state asset forfeiture funds provided to law enforcement and prosecutorial agencies. The overall share of this funding going to prosecutorial agencies would change from 10 percent to 7 percent, while the overall share going to law enforcement agencies would change from the present 65 percent to 45 percent. The bill would specify that law enforcement agencies, who are currently required to spend 15 percent of their share on anti-drug or anti-gang programs, could set aside part of their funds to these purposes but would no longer be required to do so.
- Establish a new requirement that local law enforcement agencies deposit 15 percent of their asset forfeiture proceeds received under the authority of federal law into the state General Fund, to the extent allowable under federal rules without jeopardizing the state share of federal asset funds. The deposits must be made once every three months and are due 30 days after the end of each quarter. State agencies receiving federal asset forfeiture proceeds would be exempt from this deposit requirement.
- State legislative intent that the additional state General Fund resources be used to prevent crime by preserving local assistance for drug or alcohol treatment programs.

Staff recommendation: Adopt placeholder Trailer Bill Language to modify asset forfeiture distributions to generate additional revenues for the General Fund.

Unallocated Reductions to Community Treatment Programs

Issue: The state reduced non-Drug Medi-Cal programs at the county level by $7.7 million for adult treatment programs and $5.7 million for treatment programs for adolescents, in the current year budget. The January budget proposes an additional unallocated reduction to county programs of $7.5 million. The reductions over the past two years are summarized below:

Program Year	2002-03 Proposed	2000-01 Budget Act
Regular Non-Drug Medi-Cal	$23.843 million	$56.828 million
Perinatal Non-Drug Medi-Cal	$23.457 million	$26.135 million

At our May hearing, the Department indicated that the administration has decided to exclude the Proposition 36 appropriation from the calculation undertake by the federal government to determine whether the state meets Maintenance of Effort requirements. This has the result of maintaining the state's flexibility in the future: if the Proposition funding is not continued, the state will not suffer huge consequences in its federal Substance Abuse Prevention and Treatment block grant allocation. However, if the Proposition funds are not counted, the state will have a potential MOE problem in the budget year of $14 million, due to the reductions taken in the current year and proposed for the budget year. The reduction in block grant funds would occur in the following year.

If the subcommittee restores Drug Court funding as proposed above, an additional $6 million would be required in order to avoid a federal reduction in budget year plus one.

Staff recommendation: Reduce the January reduction to non-Drug Medi-Cal community treatment programs by $6 million, accomplishing a reduction of $1.5 million. If the Asset Forfeiture proposal taken by Subcommittee #4 is taken, the combined reduction in prison bed days and asset forfeiture funds will more than compensate for these increases will provide the funds for the Drug Court restoration and this action.

4700 Department of Community Services and Development

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

Energy Programs
Issue: The May Revision proposes a one-time spending increase to the federal Low Income Home Energy Assistance Program of $21.45 million, to reflect increased federal funds made available, carryover of unexpended fund from previous years, and a LIHEAP leveraging grant, distributed to recognize California's success at identifying non-federal sources of energy programs. The May Revision also proposes to augment current year spending authority by $35.7 from increased federal funds made available for the same reasons.

The May Revision proposes to augment the budget for federal Department of Energy Weatherization funds by $1.85 million, to reflect increased federal funds.

Staff recommendation: Adopt the May Revision augmentation to LIHEAP and DOE-Weatherization.

Naturalization Services
Issue: The Naturalization Program provides services to legal permanent resident to assist in obtaining citizenship. The program was $7 million General Fund in 2000-01. The budget was reduced by $.5 million in the current year budget, then further reduced by $1.6 million in the January reductions, for a current year budget of $4.9 million. The January budget proposed to reduce the program to $2 million.

The subcommittee budgeted nearly $1 million in Workforce Investment Act Rapid Response funds to provide one-time services to airport workers losing their jobs because of new federal requirements for citizenship. Senate Budget Subcommittee #1 is considering a proposal to designate $5 million of English Literacy-Civics funds from the Department of Education for an interagency agreement with the Department of Community Services to provide naturalization services.

Staff recommendation: Adopt the January budget, and continue working to provide other funding for these necessary programs.

ITEMS FOR DISCUSSION:
Community Services Block Grant
Issue: Federal Community Services Block Grant (CSBG) funds are provided to community action agencies, rural community agencies, migrant and seasonal farm worker programs, and Native American Indian programs. The funding is intended to provide the administrative and organizational center for community agencies that provide energy programs, Head Start, Food and Nutrition services, Adult Education, Foster Grandparent and other Aging Services, Community Development Block Grant funds, and a variety of other services to meet the needs of low income households.

California statute distributes the funds among the agencies types, including 76.1% to community action agencies and rural community services and the balance to other special populations and state discretionary funds. The funding for community action agencies is provided through a statutory formula that provides a minimum of $160,000, with the balance of the funding distributed according to the low income population in the service area.

The subcommittee heard extensive testimony about the allocation of these funds in April. Those agencies that receive minimum funding have received that amount since 1981, despite increases in the California block grant. At variety of factors led to an allocation discussion. (1) The federal government increased CSBG funds by $4.5 million in ongoing funds, with a special proviso that all entities currently in good standing in the CSBG program receive an increase in funding proportionate to the increase provided for the Grant. (2) Some minimum funded agencies indicated a willingness to sue the state over the inadequacy of the minimum funding levels. (3) Legal counsel to the state and the Legislature indicated that the state could not adjust the minimum funding level, even to distribute the new federal funds, without a change in statute. (4) In a summer, 2002, hearing on the CSBG state plan, the Legislature directed the state association of community action agencies to develop an alternative allocation proposal.

The state association brought a proposal to the subcommittee at our April hearing. The proposal has been endorsed by a significant majority of the community action agencies involved, but not all. Elements of that proposal include: (1) Minimum funded agencies should receive a percentage of the CSBG funds, rather than a fixed amount, so that their share rises and falls with other CAAs; (2) Any change should be phased in over a three-year period; (3) Any increase in funding levels should take place with new funds, so that currently funded agencies do not lose amounts they currently receive; (4) If new funds are not available, the increase should be partially funded with state discretionary funds.

The May Revision proposes Trailer Bill to make a one-year distribution of the new funds proportionately to all eligible CSBG recipient agencies. The May Revision also proposes to augment the CSBG budget by $6.55 million, including the $4.5 million in ongoing funds, and $2.05 million carryover from the current year to the budget year. Finally, the May Revision states that it is the intention of the

Department to assess the impact of the Census data on allocations before proposing changes.

Staff recommendation:

- **Request that the Department report in the hearing on why there is $2 million carryover, and how these funds are proposed to be used.**
- **Adopt the distribution of $4.5 million in new funds as proposed in the May Revision.**
- **Adopt the May Revision Trailer Bill Proposal.**
- **Adopt additional Trailer Bill language that makes a permanent change to the CSBG allocation formula: minimum agencies should receive a percentage of CSBG funds, rather than a fixed amount; any change should be phased in using new funds (no time limit); require the affected agencies and the Department to report in three years on the status of funding levels and the impact of the 2000 census on distributions; legislative intent included that the allocation for CSBG is not intended to provide a template for any other program.**

5100 Employment Development Department

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

<u>**Labor and Workforce Development Agency**</u>
Issue: The budget proposes to transfer $1.4 million ($32,000 General Fund) and 14 positions to the new Labor and Workforce Development Agency.

Staff recommendation: Adopt the May Revision proposal.

<u>**Reed Act Allocation**</u>
Issue: The subcommittee acted on May 9 to schedule some of the Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this list was $26 million for Job Services expenditures currently funded by EDD's Contingent Fund.

The May Revision proposes to schedule a total of $34.4 million from the Reed Act. This will allow the state to use Reed Act funds where appropriate for the administration of the Employment and Employment Related Services and Tax Collection and Benefit Payment Programs.

Staff recommendation: Reverse the subcommittee action relating only to the $26 million allocation for Job Service expenditures, and substitute adoption of the May Revision allocation of $34.4 million for eligible purposes.

Elimination of Job Agent Program
Issue: The subcommittee adopted a proposed January reduction of funds for the Job Agent program ($2.7 million General Fund and 36.2 positions), at its April 4 hearing**. The proposal included Trailer Bill Language to accomplish the reduction.** The subcommittee did not explicitly adopt the Trailer Bill.

Staff recommendation: Adopt the proposed Trailer Bill Language.

May Revision Caseload Changes
Issue: The May Revision includes adjustments to the current year ($2.266 billion) and budget year ($1.164 billion) for the administration of Unemployment Insurance, and the payment of benefits.

- $14.0 million in current year personal services authority to pay for overtime associated with the extraordinary workload associated with the economic slowdown, the federal extension of benefits, and the state increase in benefit payments. No increases for this purpose are estimated for the budget year; no increase in personnel years are proposed.
- $2.252 billion in current year expenditure authority for benefit payments (the state increase in benefits, the federal extension of benefits are factors here).
- $1.164 billion in increased benefit payments in the budget year.

Issue: The May Revision includes current year ($170.3 million) and budget year ($295.3 million) caseload changes for the Disability Insurance program.

- 2.0 million in current year personal services authority to pay for overtime associated with processing initial and continued claims. No increases in budget year are proposed, and no personnel year increases. Why the increase?
- $168.3 million in current year and $195.3 million in the budget year for cost increases in Disability Insurance, including increases in the average weekly benefit and the average number of weeks per claim.
- $174,000 in increased cost for postage rates.

Issue: The May revision proposes to increase the cost of benefits in the School Employees Fund by $8.1 million in the current year, and $7.3 million in the budget year, reflecting caseload increases and increased UI benefit costs related to state actions to increase benefits.

Staff recommendation: Adopt May Revision cost and caseload changes, with the exception of the increase for postage rates which should be denied.

ITEMS FOR DISCUSSION:

Faith-Based Initiative
Issue: The budget provided $5 million General Fund in 1000-01, and $4 million in 200102, to provide a competitive grant program for faith based and community based organizations in the delivery of employment services. EDD has used a portion of the

Governor's Discretionary Workforce Investment Act (WIA) funds to provide an additional grant to first year grantees. **The January budget proposed an additional $4 million to provide an additional round of competitive grants.**

Staff Recommendation: Eliminate the funding from the budget. If the funding is retained there is technical Budget Bill Language from the LAO that will restore a requirement for competitive bidding for the funds, a provision that was inadvertently dropped from last year's budget language.

Reed Act: Alternate Base Period Budgeting

Issue: The Subcommittee acted on May 9 to designate $167 million in Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this list was **setting aside $20 million for the administrative costs associated with creating an alternate base period, which would expand UI program coverage to utilize recent wages for the purpose of establishing benefit eligibility**.

Previous legislative proposals to establish an Alternate Base period have stalled because of the administrative costs to create the capacity to identify an alternate base period. Current law establishes the first four of the last five completed calendar quarters of work. The alternate base proposal would allow EDD to count the last four completed quarters before the first day of the individual's benefit year, if the base period in existing law does not establish benefit eligibility. The impact of establishing an alternate base is to make it more likely that new entrants to the labor force can qualify for UI during periods of unemployment. There are small increased costs to the UI Trust Fund ($33 million). When this issue was last proposed in legislation, there were significant savings to the welfare system ($8.5 million/year in 2001) related to the change.

The Assembly acted to adopt the Alternate Base Period in Trailer Bill, as well as to fund the administrative costs associated with establishing an alternate base.

Staff Recommendation: Adopt placeholder Trailer Bill Language to establish an Alternate Base Period in law.

Reed Act: Alternative Trigger for UI Extended Benefits

Issue: : The Subcommittee acted on May 9 to designate $167 million in Reed Act funds for various projects to strengthen the Unemployment Insurance program, and to make it more efficient. Included in this action was **$65,000 for the one-time administrative cost of reprogramming the UI database system to implement an alternative trigger mechanism for UI extended benefits.**

The alternative trigger mechanism would provide a means of extending UI benefits for 13 to 20 weeks longer during high periods of unemployment. The current law provides extended benefits according to a ratio of individuals receiving UI to the total number of

individuals covered for UI. Extended benefits are triggered when the ratio is 6% or equals or exceeds 120% of the same rate for the preceding two calendar years and equals or exceeds 5%.. This formula does not include individuals who have exhausted benefits, are exempt from coverage, or are new entrants to the labor market. The proposed change in law would trigger extended benefits sooner during periods of high unemployment.
The proposal is to take a federal option of using the total unemployment rate, instead of the ratio developed using only insured individuals. The trigger would be pulled when the total unemployment rate is 6.5% and 110% of the average for the corresponding three-month periods in either or both of the two previous years.

Staff recommendation: Adopt placeholder Trailer Bill Language to implement the alternative trigger mechanism.

Reed Act: Unemployment Insurance Review Process
Issue: The subcommittee adopted a schedule of expenditure authority for Reed Act expenditures at its May 9 hearing. Included in that schedule was a decision to adopt Trailer Bill language requiring EDD to convene a labor, management, academic, community and public sector represented committee to review the Unemployment Insurance financing system. Changes to the trigger based tax system may be needed to correct counter-cyclical changes in taxing rates.

Staff recommendation: Adopt placeholder Trailer Bill Language to implement the UI review process.

Workforce Investment Act Funding
Issue: The May Revision proposes to reduce current year state support for the Workforce Investment Act by $38,000 and current year local assistance by $6.1 million. These changes reflect reductions in the federal distribution of funds to California, based on comparative poverty and employment statistics.
The May revision proposes to reduce budget year state support by $23.1 million ($9.4 million of this is from the 15% discretionary, and $13.7 million from state level Rapid Response) and local assistance by $39.2 million ($4.8 million for Adults, $1.4 million for youth, and $32.9 million for Dislocated Workers). These changes reflect reductions in the federal distribution of funds to California. They do not reflect the threatened federal rescission

Reductions in WIA of course drive reductions in the 15% discretionary category. The Administration has provided charts showing adjustments to the proposed spending categories provided to the subcommittee earlier in the budget process. The proposal adjusts to the reduction by reflecting more accurately the spending for the nursing workforce initiative at $18 million in the budget year, and by assuming a carryover in the WIA funds. Spending categories will need to be adjusted further if the carryover does not materialize.
Staff recommendation: Adopt the May Revision reflecting reduced federal WIA allocation to California.

5120 California Workforce Investment Board

ITEMS FOR DISCUSSION:

California Workforce Investment Board Funding

Issue: The subcommittee reviewed the activities of the California Workforce Investment Board (CWIB) at its April 4 hearing, and removed $1.3 million in funds from the Board's $5.7 million budget. All CWIB funds are federal WIA funds and reimbursements. **The subcommittee expressed three principal concerns: the failure to propose changes to outdated workforce development statute; the lack of public clarity about roles and functions between the CWIB and EDD; and the failure to develop standards or certification protocols for local One-Stops**. The staff of the CWIB has provided procedural information about CWIB activities at both the staff and board levels. All three of the subcommittee's issues will require adoption by the Administration, in addition to staff proposals.

The May Revision proposes to decrease funding for the CWIB by $138,000. The funds are to be used to augment the EDD budget to 'address critical workforce needs.'

The Revision further proposes to shift $50,000 to support activities being shifted to the new Labor and Workforce Development Agency.

Staff recommendation:

- **Modify the previous reduction to basic CWIB funding to $1.25 million, to reflect the transfer to the new Agency;**
- **Adopt the May Revision proposal to shift $50,000 to support the new Labor and Workforce Development Agency;**
- **Add Budget Bill language requiring that the Administration provide a Section notification to the Legislature prior to providing any additional discretionary WIA funds to the CWIB, and require that the notification include information about concrete progress in proposed statutory change to implement WIA; role definition in the new Agency for the Board and EDD with respect to WIA implementation; and concrete progress in the development of certification protocols for local One-Stops**.

5160 Department of Rehabilitation

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

One-Stop Career Centers
Issue: The subcommittee heard testimony in February, 2002, at its WIA Oversight hearing, on the substantial amount of WIA funding that is being used to provide core services in One-Stop centers around the state. Local Workforce Investment Boards expressed concern that One Stop partners have not always been able to bring resources to the One Stops to support the basic infrastructure. **The subcommittee adopted Budget Bill language in the EDD budget on May 9 requiring the Department to develop a format for reporting state expenditures in One Stops, and to report EDD expenditures by February 1, 2003**. The subcommittee announced its intention to adopt similar Budget Bill Language for the Department of Rehabilitation and the Department of Social Services.

Staff Recommendation: Adopt the Budget Bill Language.

WAP-SEP Program Placement
The debate about how to reduce costs in the WAP and SEP program revealed again the difference in corporate culture, entitlement status, program guidelines and rates between similar programs operated by the Department of Developmental Services and the Department of Rehabilitation to clients of habilitation services. Although the issue of where to manage WAP and SEP programs has been addressed before, the disparities in program guidelines continues to exist, and reductions may affect that disparity as well.

The subcommittee could adopt Budget Bill language in both the Department of Developmental Services and the Department of Rehabilitation to bring an analysis of rates, eligibility and consumer outcomes to the budget committees next spring, along with a recommendation for streamlining and consolidating these programs, if the findings warrant such a proposal.

Staff recommendation: Adopt the proposed Budget Bill language.

May Revision Caseload Adjustment
Issue: The May Revision projects a caseload increase in the basic Vocational Rehabilitation program of 1.7%, requiring additional funds of $560,000 ($124,000 General Fund).

Staff recommendation: Adopt the caseload increase augmentation

<u>**Postage Rate Increase**</u>
Issue: The May Revision proposes an increase of $62,000 ($13,000 General Fund) for the postal rate increase.

Staff recommendation: Reject the postal rate increase.

<u>**Reversion Item**</u>

Issue: DR anticipates a current year savings of $700,000 General Fund in the basic Vocational Rehabilitation plan. The May Revision proposes to adopt reversion language to permit capturing the savings for the General Fund.

Staff recommendation: Adopt the reversion item.

ITEMS FOR DISCUSSION:

<u>**WAP Rate Setting**</u>
Issue: Work Activity Program provides services to clients with developmental disabilities, in the Habilitation Services part of the Department of Rehabilitation. Services are usually provided in a sheltered workshop and include both paid work and work related services. Services are paid on a per consumer day, and the rate varies from provider to provider based on their WAP historical costs. Statute requires the rate to be established every two years, based on the service provider's cost of providing services. In other words, rates would be set for the 2002-03 fiscal year, based on expenses incurred in the 2000-01 fiscal year.

The January budget proposed to suspend the new rates that would otherwise be set in 2002-03. The January estimate was that this would avoid $4.9 million in new costs ($3.8 million General Fund). The January budget action would require Trailer Bill to accomplish.

When the subcommittee heard this issue in March, it requested that the LAO examine whether the proposed rate freeze would constitute a risk to the General Fund, due to the entitlement nature of services to individuals with developmental disabilities. The LAO found that to the extent WAP providers stop accepting new clients or close their programs altogether as a result of the proposed rate freeze, suspension of the rate adjustment could result in greater demand for Regional Center day programs and services for clients who would otherwise be served through the Work Activity Program. While this may result in cost pressures within the Regional Center system, it is unlikely to result in a short-term risk to the General Fund.

The May Revision does not propose to change the January budget action. The January action was justified at least in part by significant increases in WAP costs. **The May Revision also reduces expenditures in the Habilitation Services program by $9.2 million ($8.1 million General Fund), to reflect adjustment in the estimate of the**

number of days clients attend WAP programs, and a decline in the number of job coach hours provided. These are changes to the Department estimating results that were suggested by stakeholders in the course of examining the potential for further reductions.

Stakeholders to this process request that the suspension of the rate adjustment be limited to one year.

Staff recommendations: Adopt the January budget proposal to suspend the rate-setting process for WAP, including Trailer Bill Language to accomplish the suspension. Adopt the reduction to WAP costs proposed in the May Revision.

WAP-SEP Program Changes

Issue: Supported Employment Programs (SEP) are also provided to clients with developmental disabilities (and to other Vocational Rehabilitation clients in the main Vocational Rehabilitation program). SEP services are usually provided at the work site of a community or private employer. They can be provided in groups of three or more individuals with a full time job coach, or through individual job coaching for an individual in a work setting.

The January budget anticipated increases of $10.9 million ($10.5 million) General Fund for the WAP and SEP programs serving clients with developmental disabilities (the Habilitation program with the Department). These increases were offset by a general reduction of $7.3 million ($5.9 million General Fund) to reflect various cost containment measures in the WAP and SEP programs. The budget did not detail how these reductions were to be accomplished; a work group has been convened to develop proposals.

The January budget provided Trailer Bill language to generally accomplish the reduction, clarifying existing law that permits rates for WAP and SEP to be reduced to remain within the General Fund appropriated, pending notification of the Legislature in advance. The proposed statute eliminates a waiver of increases due to unanticipated increases in caseload or the average client workday when estimating whether cause exists to reduce rates.

The May Revision proposes to restore $4.5 million of the general reduction ($3.7 million General Fund). It further proposes to accomplish the remaining reduction ($2.8 million, of which $2.2 million is General Fund) by:

- Increasing the minimum group size for SEP services from three to four. This would require the development of job sites that can accommodate four individuals, and may reduce the wages of participants of SEP group services. ($1 million)
- Eliminating the payment of job coaching hours of lunch supervision of SEP consumers in groups.($1.8 million).

The proposal is accompanied with Trailer Bill language to accomplish these specific reductions.

In addition, the Department indicates that the stakeholder process produced additional strategies to pursue over the long term: reviewing the rate-setting for WAP, developing procedures to assure a consumer's continuing ability to benefit from Habilitation services, and maximizing the income available from the DDS Home and Community Based Services Waiver. Stakeholders have requested that the exclusion of payment for lunchtime supervision include a provision whereby the Department can waive the requirement for health and safety considerations. **The entire current rate setting procedure for supported employment becomes inoperative on September 1, 2003 and sunsets January 1, 2004.**

Staff recommendation: Adopt the January budget reduction as amended by the May Revision. Adopt the specific Trailer Bill language proposed in the May Revision, amended to provide the Department with authority to waive the lunchtime supervision bar for health and safety reasons, and amended to provide that the current rate setting scheme will not sunset unless the final report called for in statute assessing the impact of the rate setting is provided to the Department of Finance and the Legislature on or before February 1, 2003, the date currently in statute. Reject the general Trailer Bill authority to reduce Habilitation services proposed in January.

5175 Department of Child Support Services

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

State Administrative Hearings

Issue: Current law requires that the State conduct a hearing within 30 days of receiving a complaint. The May Revision estimates increased caseload for such hearings, which are conducted by the Department of Social Services. The following adjustments are proposed:

- **Review by DCSS of DSS decisions: $137,000 increase ($47,000 General Fund) and 2.1 staff positions;**
- **Funds for DSS contract for hearings: $413,000 increase ($140,000 General Fund)**
- **Budget bill language to permit DCSS and DOF to augment the amount available for hearings, if necessary to remain with statutory timeframes.**

Staff recommendation: Approve the augmentation; amend the budget bill language to require legislative notification concurrent with approval by the Department of Finance.

<u>California Insurance Intercept Project Collections</u>
Issue: The Department proposes to enter into a contract to increase child support collections by intercepting personal injury awards to repay past due child support obligations. The Department proposes to enter into a partnership with Maximum and the State of Rhode Island, who are the only third party personal injury intercept program available, according to the Department.

The proposed cost of the contract would be $1.1 million ($383,000 General Fund). The budget assumes enhanced collections of a total of $20.2 million, including both assistance cases and non-assistance cases, resulting in General Fund revenues of $3.4 million. The proposal also includes budget language that requires DOIT and DOF approval of a Feasibility Study Report before any expenditure of contract funds is allowed.

Staff recommendation: Approve the augmentation and the budget bill language, modified to eliminate the specific reference DOIT and DOF approval and instead require appropriate control agency review. Add Supplemental Report language requiring the Department to report in budget hearings on the amount of enhanced collections in the budget year.

<u>California Child Support Automated System (CCSAS)</u>
Issue: The Department and the Franchise Tax Board, which operates as the Department's agent in the development and implementation of the CCSAS, are in the process of evaluating the bid for the project. As a result, the full level of funding that will be required in the budget year is unknown. The budget provides 8 months of costs; the balance of the funds needed will not be known until the contract is negotiated, early in 2003.

The May Revision proposes budget bill language to authorize the Administration to augment the funds available for expenditure for CCSAS, not sooner than 30 days after notification of the Legislature and consistent with an approved Feasibility Study Report.

Staff recommendation: Adopt the proposed budget bill language.

<u>Caseload Adjustments</u>
Issue: The May Revision includes various caseload adjustments:
- Reduction in current year administrative allocations to counties, related to slower implementation. This results in savings of $82.1 million ($25.2 million General Fund). The budget proposes to add a reversion item to collect the General Fund savings.
- Budget bill language for an increase in loan authority from $110.0 million to $136 million, reflecting increased child support collections. The loan is used to pay state and local child support costs for the federal share of their administrative costs prior to the receipt of federal funds. It is repaid when federal funds are received.

Staff recommendation: Adopt the caseload adjustments, including budget bill language for the loan.

__Postage Increase__
Issue: The May Revision proposes an increase in General Fund costs of $335,000 to reflect an increase in postage costs.

Staff recommendation: Deny the proposed increase.

__Transition Automation Changes__

Issue: The May Revision proposes to redirect $1.7 million ($568,000 General Fund) from electronic data processing conversion and enhancements to maintenance and operations to establish six contract positions to act as consortia project leader supervising the legacy data systems that will operate until the CCSAS system is implemented.

The LAO suggests that hiring consultant to establish a state presence in the operation of these consortia is not an effective solution. The LAO suggests that Trailer Bill language establishing state oversight over the consortia, and developing the capacity at the Department to provide that oversight, would be a more effective strategy.

Staff recommendation: Adopt the proposed May Revision redirection.

__Child Support Recovery Fund__
Issue: Federal recovery collections are deposited in the Child Support Recovery Fund and serve as an offset to the federal Child Support grant. The May Revision proposes Budget Bill language to authorize Finance to adjust the expenditure authority in the fund, to offset increases or decreases in collections. The proposed language specifically exempts such a change from notification procedures to the Legislature.

Staff recommendation: Adopt the proposed budget bill language, amended to eliminate the 'notwithstanding' clause.

ITEMS FOR DISCUSSION:

__Alternative Federal Penalty__
Issue: The January budget assumed that federal legislation would be enacted to relieve the state entirely of a federal penalty of $181.3 million, assessed because of the state's delay in implementing a statewide automated child support system.

The May Revision assumes that the state will still be required to pay a penalty of $89.7 million (assuming federal relief of $91.6 million). The federal penalty is a county responsibility under current law. However, the budget has for the past three years paid the penalty, in an effort to encourage the transition by counties to the new child support system.

The May Revision proposes that counties will pay half the estimated penalty, directly to the General Fund (an assessment of $44.9 million to counties). The budget proposes to budget the entire penalty in the Department's budget, as the county payments will go to the General Fund.

The budget proposes budget bill language assessing counties $44.9 million, allocated based on the county's share of total administrative costs for all counties. Finally, the budget proposes Trailer Bill to provide that when the Budget Act does not provide sufficient funds to pay any federal penalty, the department shall calculate the county's share of the penalty. This will have the effect of shifting the entire increase of the penalty above $89.7 million to counties; and, by specifying a minimum county payment of $44.9 million, assuring that any savings associated with a negotiation of the penalty below $89.7 million go to the state. Counties currently have no county general fund share of this program; all costs are paid with state and federal payments. Further, state law requires that counties use those state and federal payments for the costs of administering the program. Therefore, the penalty payment will be paid directly from the county general fund.

Staff recommendation: Adopt the proposed May Revision change to the estimate of the penalty; reject the proposed trailer bill, and adopt instead placeholder trailer bill that will distribute 50% of the cost of any penalties in 2002-03 to counties, with the remainder to be assumed by the state.

Foster and Kinship Care Education Program

Issue: The Chancellor's Office of the California Community Colleges has operated a training program for foster parents; all foster parents are now required to obtain education/training at the pre-service and ongoing service levels, and the program has been expanded to include kinship care providers. 67 community colleges provide the Foster and Kinship Care Education Program. The program is funded with child support collections, Proposition 98 and federal Title IVE funds.

The January budget proposed to reduce current year funds by $1 million from the Foster Children and Parent Training Fund in the Department of Child Support. This in turn would reduce federal reimbursements.

The May Revision sustains the $1 million reduction. The May Revision further proposes to cap the collections transfer for this purpose in future years at $1,972,000, the amount proposed for this year.

Staff recommendation: Restore the $1 million to the Foster Children and Parent Training Fund, and deny the May Revision capping the distributions from the fund. Subcommittee #1 is considering the comparable adjustment to the budget for this program in the Community Colleges.

5180 Department of Social Services

ITEMS PROPOSED FOR CONSENT/VOTE ONLY:

TANF Reauthorization Policy Changes: Assembly Conformity

Issue: California's CalWORKs program has undertaken very few changes since enactment in 1997. The federal funding level, and associated Maintenance of Effort funding requirement, have assured that funds were available to support the CalWORKs program, and to provide additional funding for programs that would otherwise require General Fund support. However, for the past two years, the budget has faced serious difficulties providing funds for grants, employment services and child care within the CalWORKs budget, as well as continue to support the non-core CalWORKs program elements. By this year, funding for performance incentives was zero for the second year in a row, employment services were significantly underfunded. The January budget, and the subcommittee's budget, were brought into balance only by moving non-core programs outside of the base.

In addition, the federal government will reauthorize federal TANF this year. Preliminary proposals include significant changes in work requirements, as well as the definition of work activities that will qualify. California's CalWORKs program will require potentially major changes in order to remain within budget constraints and meet new federal requirements.

The Assembly approved placeholder Trailer Bill Language to put together a working group in the fall to provide the Legislature with a proposal to make the necessary changes to CalWORKs next year.

Staff recommendation: **Adopt placeholder Trailer Bill Language to require the Department of Social Services to convene a working group on CalWORKs changes necessary to meet new federal requirements.**

Performance Incentive Trailer Bill Proposal

Issue: Federal law has now been interpreted to require that counties be paid CalWORKs performance incentives, when they are expected to be used, not when they are earned. The department has negotiated the use of an offset process to recoup the unspent incentives, together with the actual interest that counties have earned on awarded, but unspent, performance incentives. In the future, funds that are not anticipated to be spent will remain in the federal treasury until they are anticipated to be spent.

The January budget proposes to recapture the approximately $600 million in unspent performance incentives in 2002-03, to reappropriate $431 million to the counties as performance incentive funds, and to redirect the remaining $169 to other CalWORKs purposes. This increases the amount the state owes counties for earned but unspent performance incentives. The subcommittee acted to increase the amount of performance incentives borrowed and redirected, by adopting the county proposal to provide one-time augmentations to employment services.

The January budget includes Trailer Bill Language that prohibits the expenditure of unspent performance incentives from the last three budgets, including the current year, after June 30, 2002. The language also eliminates the $20 million in performance incentive payments from the current year budget.

Staff recommendation: Adopt the proposed Trailer Bill language prohibiting expenditures of performance incentive funds appropriated in prior years after June 30, 2002 (thereby limiting expenditure to performance incentive funds appropriated in the budget year), and eliminating the $20 million current year payment on earned but unpaid incentives to counties.

CalWORKs Child Care
Issue: The subcommittee acted in May to replace funding that was removed from Stages 1 and 2 of CalWORKs child care because of the Governor's proposed reforms, and to reject those reforms. The May Revision assumes no savings associated with the reform. The May Revision makes small changes related to caseload (from persons reaching time limits, from decreased Stage 1 child care). The subcommittee acted to achieve savings by eliminating the practice of making extensive retroactive payments to participants. The May Revision adopts the same proposal. The May Revision fully funds Stage 3, although the actions to accomplish this are taken in subcommittee #1.

Staff recommendation: Adopt the May Revision for CalWORKs child care, including trailer bill to eliminate retroactive payments and

CalWORKs Proposal to Reinstate Senior Parent Deeming
Issue: Under current law, a minor parent on CalWORKs is generally required to live with her parent(s) ('senior parents') in order to receive cash assistance. Exceptions are made where the senior parent's home is unsafe for the minor and her child. The senior parent can apply for and receive aid on behalf of the grandchild, even if the senior parent's income would otherwise make the family ineligible for assistance. In such a case, the child is deemed a 'child-only' case. The law was passed to encourage teen parents to live with their own parents.

The May Revision proposes to reinstate the practice of assessing the income of the senior parent for purposes of determining eligibility and setting grant levels. The proposal would generate $12.3 TANF/MOE savings within the CalWORKs program. The proposal requires trailer bill language to implement.

Staff recommendation: Adopt the May Revision proposal to reinstate senior parent deeming.

<u>One-Stop Participation Reporting</u>

Issue: The subcommittee heard testimony in February, 2002, at its WIA Oversight hearing, on the substantial amount of WIA funding that is being used to provide core services in One-Stop centers around the state. Local Workforce Investment Boards expressed concern that One Stop partners have not always been able to bring resources to the One Stops to support the basic infrastructure. **The subcommittee adopted Budget Bill language in the EDD budget on May 9 requiring the Department to develop a format for reporting state expenditures in One Stops, and to report EDD expenditures by February 1, 2003**. The subcommittee announced its intention to adopt similar Budget Bill Language for the Department of Rehabilitation and the Department of Social Services.

DSS, unlike EDD and DR, does not participate directly in One-Stop Centers. Indeed, local welfare departments are not mandated partners in One-Stop Centers. However, many welfare departments do outstation CalWORKs workers in One-Stops, or partner in other ways with the operation of One Stop Centers. The subcommittee should adapt the Budget Bill Language to permit a one-time survey of welfare departments to determine the extent of participation in One-Stops.

Staff recommendation: Adopt the Budget Bill Language

<u>School-Age Child Care Center Licensing</u>

Issue: The January budget, modified by a Spring Finance Letter, proposed to streamline the licensing of school-age child care facilities, by changing the required visits to once every three years rather than once a year, eliminating case management activities, and implementing Serious Incident Reporting procedures. The budget is proposed to be reduced by $542,000 General Fund and 9.5 positions eliminated; Trailer Bill Language is proposed to change licensing statutes and accomplish the reductions.

Prior Subcommittee Action: The Subcommittee discussed this issue 4/11, and asked the Department to review the provisions of its proposal with stakeholders. Committee staff discussed the proposal with some stakeholders: no formal opposition was received, although child care advocates are uncomfortable with reducing licensing resources. The Subcommittee pulled the item from the agenda on 5/9, pending review of the proposal by policy committee staff, in light of a special hearing on child care licensing reviews.

Staff Recommendation: Adopt the January budget proposal, as modified by a Spring Finance Letter, to reduce the Community Care Licensing budget by $542,000 and eliminate 9.5 positions; adopt the Trailer Bill Language required to streamline licensing requirements.

Perinatal Services

Issue: In the Department of Alcohol and Drug Programs budget, the subcommittee adopted a reduction in funds for local perinatal treatment programs. The subcommittee implemented the reduction proportionately between residential and non-residential programs.

Among the residential programs, many provide services directly in the context of a dependency court. In other cases, the dependency court has been involved in the past or could be again. Most of these programs also permit the parent to enroll in the residential program with their children, and believe that keeping the family together is a significant element of program success. This admission practice also avoids foster care placement, in cases where a dependency action is the alternative to drug treatment for the parent.

This raises the question of whether foster care alternative funding could be used as a part of the package of funding for perinatal treatment services. **The subcommittee could require DSS to explore with the Department of Alcohol and Drug Programs how to establish a funding stream for the board-and-care costs for children who are in residence with their parent in a drug treatment program, who are placed there with the participation of a dependency court that finds that out-of-home placement is the alternative to parental drug treatment.**

Staff recommendation: Adopt Supplemental Report Language that requires DSS and DADP to report by March 1, 2003, on whether state or federal foster care funding could be adapted to serve the board and care needs of children who are in residence with their parent in a drug treatment program, who are placed there with the participation of a dependency court that finds that out-of-home placement is the alternative to parental drug treatment. The report should include a survey of funding sources, including information about the impact on out-of-home care costs for children., if available.

Foster Care Audits

Issue: The subcommittee adopted an operations reduction in the Department of Social Services on April 11, that included a reduction in the annual audit requirement for foster care programs, abolishing two positions. The reduction requires Trailer Bill language to implement.

Staff recommendation: **Adopt the Trailer Bill to reduce annual audit requirements.**

Foster Family Agencies
Foster Family Agencies (FFAs) are nonprofit agencies that recruit foster parents, certify homes for participation, and provide the homes with training and support services. FFAs are paid $1589 to $1844/month (compared to $425 to $597/month for foster family homes). The amount paid to FFAs includes both the amount paid to the foster family home and a sum for treatment and administration paid to the agency.

The LAO has reviewed FFAs over the past couple of years. The use of FFAs has grown substantially; they now represent one-third of the children placed out of home. The Analyst has also found that children stay longer in FFAs than in non-relative foster homes, and that they are no more likely to have psychological and abuse-related problems, and less likely to have physical and medical options. Family backgrounds of FFA children are more stable and law abiding, and yet children are less likely to reunify with their families or achieve other long term stability.

FFAs and counties argue that FFAs are reimbursed at a sum closer to the true cost of care, unlike either group homes or foster family homes. FFAs have been able to design programs to meet specific needs identified by county placing agencies.

The subcommittee reviewed the options presented by the LAO, and expressed interest in an option that adjusts the FFA payment rate over time to encourage timely exit of children from the FFA.

Staff recommendation: Do not adopt the LAO proposal; adopt placeholder budget bill language that requires the Department to provide a concrete proposal in 2003 budget hearings that addresses the concerns that FFA length of stay is disproportionately longer, and that assures that costly resources are used appropriately.

May Revision Caseload Changes: Children's Services

Issue: The May Revision makes a variety of changes in caseload estimates:
- Kin-GAP: Costs for Kin-GAP decrease $23.1 million due to a decrease in caseload; this is a decrease in estimated caseload: the real growth will still be 27.5% in the budget year. No COLA is provided to these parents.
- Adoption Assistance: Costs increase $12.2 million, due to an increase in caseload, now estimated to grow 14.2%. No COLA is included.
- Foster care payments will increase by $10.8 million, and caseload will decline a small amount compared to the January budget. No COLA is included.
- Supportive Transitional Emancipation Program: Decrease by $27.0 million, to reflect the slow take-up of this program by counties. (Note: the subcommittee already took $4.6 million from the budget year for this program, for the same reason.)
- Transitional Housing for Foster Youth is reduced $3.7 million, due to a decline in participating counties and a slow start-up.

- Adoptions: There is a decrease of $668,000 General Fund and an increase of $508,000 federal funds due to a decrease in the number of private adoption agency reimbursement claims, and the receipt of additional federal adoptions incentives.

Staff recommendation: Adopt the May Revision changes in caseload.

<u>Child Support State Administrative Hearings</u>

Issue: The budget proposes to **increase the budget of the State Hearings Division by $413,000 in reimbursements and 2.5 positions to increase administrative hearings on child support complaint**s based on caseload estimates in the Department of Child Support. The proposal includes budget bill language comparable to language in the Department of Child Support, permitting the Department of Finance to increase reimbursements in this area if workload increases.

Staff recommendation: Adopt the increased budget and the budget bill language, amended to require legislative notification.

<u>Postage Rate Increase</u>

Issue: The May Revision proposes an increase of $61,000 ($43,000 General Fund) to reflect an increase in postal rates.

Staff recommendation: Reject this increase in the cost of doing business.

<u>Child Care Analysis</u>

Issue: Prior to the current year, child care policy issues have been the responsibility of the Department of Education and, for this Governor, the Consumer Services Agency and the Department of Finance. In addition, a contract was let with an outside consulting firm for analysis and statistical review to provide the information necessary for policy and budgetary discussions. These entities proposed a restructuring of public child care that has been withdrawn in the May Revision to the budget.

Because of the level of legislative and stakeholder concern with the proposed restructure, the Governor's office requested that the Department of Social Services convene stakeholder meetings to provide additional information on the issue. The May Revision states that coming to consensus on the restructure was complicated by a lack of available data on which to base decisions; and concerns about basing decision on analysis by outside contractors who are not always able to provide information promptly.

The May Revision proposes to augment the DSS administrative budget by $230,000 General Fund and 3 positions for a unit to provide data collection and analysis for continued pursuit of restructure in subsidized child care. The Budget Change Proposal also indicates that there is budget bill language that will require a new survey of child care data by October 2002, and that CDE, DSS and DOF to develop a new methodology for determining income eligibility levels and family fees by April of 2003.' The language changes are not included in the DSS portion of the budget.

Staff recommendation: Reject this proposal to increase staff at this time. Budget subcommittee #1 has acted to reinstate the Child Development Program Advisory Committee, which is an appropriate body to undertake this work.

May Revision Proposals: Community Care and Special Programs

Issue: The May Revision includes various small, largely technical adjustments:

- Decrease of $23,000 for Foster Care Burial, Repatriated Americans and Assistance Dog Allowance, all cost and caseload adjustments.
- Increase of $560,000 General Fund and $975,000 Reimbursements for Non-Medical Out-of-Home Care program costs in the County Services Block Grant.
- Decrease of $269,000 General Fund and $78,000 Child Health and Safety Fund, and an increase of $74,000 Federal Funds for Community Care Licensing, largely due to caseload changes.
- A decrease of $85,000 ($81,000 General Fund) to community care licensing, to reflect the turn-back of licensing from Siskiyou and Yolo counties. The corresponding increase in state services was included in the Spring Finance Letter and adopted by the subcommittee.

Staff recommendation: Adopt these May Revision proposals.

HIPAA Proposal

Issue: DSS, like several other Departments in the Health and Human Services Agency, has a May Revision to augment the budget by $1.6 million ($665,000 General Fund) to undertake compliance activities for HIPAA. Funds are intended to be used to analyze business process and conduct system security audits; assess external IT interfaces and systems; development of an Office of HIPAA Implementation Project Management, and training in business processes. The May Revision also proposes four positions, three of them two-year limited term.

Staff recommendation: The subcommittee will consider this item separately with all other HIPAA items. **Recommend that the DSS budget conform to the actions the Committee takes on HIPAA elsewhere: Authorize 4 two-year limited term positions, and eliminate all funding in the DSS budget for this purpose. Allow DSS to access $499,800 (204,900 General Fund) from the HIPAA Budget Item**.

<u>**May Revision Caseload Adjustments for SSI/SSP and Other Adult Programs**</u>
Issue: The May Revision makes various caseload adjustments:
- The SSI/SSP caseload is down somewhat from the January estimate, and average costs are also down somewhat, for a savings of $2.1 million over January.
- Reductions are made in the Cash Assistance Program for Immigrants, based on a lower caseload growth than assumed in January, and the application of the same COLA assumptions as SSI, for a savings of $11.7 million.
- A reduction of $1.7 million federal funds for refugee cash grants due to decreased caseload.

Staff recommendation: Adopt the May Revision caseload and cost adjustment for SSI, CAPI and Refugee Cash Grants.
<u>**May Revision Cost and Caseload Adjustments for IHSS**</u>
Issue: The May Revision proposes various caseload changes:
- Caseload and average hourly case costs add a total of $34.9 million General Fund ($109.5 million total funds) in the federal program and the residual program.
- Program costs are reduced due to slower granting of wage increases in public authorities, contract and individual provides modes, for a savings of $57.6 million General Fund ($143.7 million total funds).
- Administration costs are reduced by $15.7 million General Fund ($43.1 million total funds) as part of a larger decision to reduce county costs of operating social services programs. This issue is dealt with elsewhere in the agenda.

Staff recommendation: Adopt the May revision case cost and caseload changes. Address the administrative costs elsewhere.

<u>**Prospective or Quarterly Budgeting**</u>
Issue: California is one of only eight states that requires monthly reporting of income and eligibility changes from CalWORKs and food stamp recipients. Efforts to test quarterly reporting have been stalled by complicated local approval requirements. State and federal officials believe that monthly reporting is part of the problem in California's very high error rate in food stamps. Monthly reports of income and employment require that counties process more than 700,000 pieces of paper each month, even if most of them include no reported changes. An error is recorded not only if the information is wrong or fraudulent, but if the monthly report is not processed timely. The subcommittee considered moving to quarterly reporting at its March 21 hearing, and put the issue over until final food stamp error rates were available (they were higher than expected at 17.4%); and pending further information about food stamp reauthorization at the federal level (the federal act gives states the option to adopt semi-annual reporting).

The May Revision proposes to implement prospective budgeting for CalWORKs, Food Stamps and the California Food Assistance Program effective April 2003. The net impact to CalWORKs is $18.0 million TANF/MOE and county costs ($28.1 million administrative savings; $46.1 million Grant costs); the net impact to Food Stamps administration is $5.2 savings in federal, state and county costs ($1.8 million

General Fund); the net impact to CFAP is $214,000 TANF/MOE and General Fund ($117,000 General Fund) These estimates are higher than previous estimates of the impact of the change. The proposal is expected to reduce the potential for a federal penalty for food stamps error rate of $115.8 million in the budget year, and potential further penalties. Trailer Bill is needed to implement the Prospective Budgeting proposal; the specific proposal is still in the process of review.

Staff recommendation: Adopt the May Revision proposal to implement prospective budgeting in CalWORKs, Food Stamps and CFAP, and adopt placeholder trailer bill to implement the proposal.

Food Stamp Error Rate

Issue: Since our subcommittee heard this issue, the federal government has determined the final error rate for California at 17.4% and levied a penalty of $115.8 million. Current law requires that a penaltties be paid by counties, to the extent that the specific error rate can be ascribed to specific counties. Based on the federal audit information, the May Revision proposes that the penalty be budgeted as 10% state funds ($11.6 million) and 90% county funds ($104.2 million). The Department continues to negotiate with the federal government about how the penalty will be assessed. **The May Revision budgets for the full penalty.**

Staff recommendation: Adopt the budget adjustment associated with the penalty.

California Food Assistance Program

Issue: The January budget assumed that all CFAP recipients would become eligible for Food Stamps in July, 2002, as Congress considered restoration of benefits to legal immigrant when it reauthorized the Food Stamps program. The final federal legislation will restore eligibility for a small number of recipients in October 2002, and approximately 75% of recipients in April 2003. The May Revision augments the CFAP budget by $92.3 million to provide administration and benefits for the periods of time and the individuals not covered by the federal legislation.

Staff recommendation: Adopt the budget augmentation to the CFAP program.

Tyler v. Anderson

Issue: The May Revision proposes to add $1.1 million General Fund and to extend for a year four of the 12 existing limited term position set to expire on June 30, 2002. These positions were created to implement a lawsuit settlement that overturned the Department's policy of denying IHSS payment for certain services in the early 1990's. The settlement required the Department to inform individuals potentially affected by the settlement, receive and process claims, and make a payment to eligible claimants for services they were denied or for which payment was denied.

Staff recommendation: Adopt the May Revision.

ITEMS FOR DISCUSSION:

County Administrative Costs

Issue: The current year budget did not provide a cost of doing business adjustment to many of the county-managed, state programs in the human services arrea. This includes no adjustment for increased costs for Food Stamps administration, IHSS administration, Foster Care administration, and CalWORKs. The January budget generally withheld cost-of-living adjustment for individuals and service providers, and withheld the budgeting of a cost of doing business for the same county-managed programs for the second consecutive year. The May Revision proposes to make further reductions of as much as 20% to county administrative costs in CalWORKs, Foster Care, Food Stamps and IHSS. The budget further proposes to eliminate a cost of doing business provided in January for Child Welfare Services, and to make a further reduction in earlier augmentations.

The chart below was prepared by the County Welfare Directors to array the cuts. The Total Funds impact is an estimate, since DSS did not conduct its usual administrative cost process this year. It includes county estimates of the cost of no cost of doing business adjustments in both current year and budget year. The May Revision numbers are specific reductions from the May Revision.

Impact of Budget Cuts to County-Administered Programs

(Dollars in Millions)

Program	May Revision Cuts Total Funds	May Revision Cuts General Fund	Total Funds Impact Incl. May Revise
Medi-Cal	$175.9	$87.9	$400.9
Food Stamps	$101.1	$37.9	$143.1
In-Home Support Services	$43.1	$15.7	$63.1
Foster Care	$21.9	$7.4	$27.5
Adoptions	$15.9	$9.1	$28.4
CalWORKs	$88.3	n/a	$248.0
Special Circumstances	$4.5	$4.5	$5.0
Adult Protective Services	$6.6	$5.0	$6.6
Child Welfare Services	$54.3	$28.0	$54.3
Augmentation	*(28.1)*	*(17.2)*	*(28.1)*
2002-03 CODB	*(26.2)*	*(10.8)*	*(26.2)*
Total Reduction	**$511.6**	**$195.5**	**$976.9**

The Adoptions Program, the Child Welfare Services program, and Adult Protective Services are discussed in greater detail below. The elimination of the Special Circumstances program is an action already taken by the subcommittee (The subcommittee's proposed used the savings from this reduction to augment the Adult Protective Services budget. They are included on this chart, however, to indicate that nearly $1 billion of the proposed solution to the General Fund shortfall is a reduction in the operation of human services program. The May Revision proposes no reduction in requirements, program expectations, or other changes that would allow programs to operate with reductions of up to 30% of current service levels.

Staff recommendation: The subcommittee could consider some options:
- **Should the subcommittee adopt suspension of the cost of doing business for the second year in a row?**
- **Should any programs be exempt from a suspension?**
- **Should the subcommittee adopt reductions below the suspension in programs the counties manage for the state?**

<u>**Adoptions**</u>
Issue: The January budget proposed to substitute $7.3 million in federal adoption incentives for the same amount in General Fund in the adoption budget. **This has the effect of reducing the adoptions budget by $5.5 million in federal matching funds. In addition, the $7.3 million would not be available for currently required expenditures: post-adoption services to assure that adoptions are successful**. This has a $12.8 million impact on current program operations. Trailer Bill is required to change the law directing federal incentives to post-adoption services.

The LAO examined the impact of this reduction on the General Fund, assuming that adoptions would be delayed. The LAO found that as many as 900 adoptions would be delayed, but that the impact on the General Fund in the budget year is negligible, due to the interaction of sharing ratios. There will likely be a loss of federal funds in the following year, assuming that federal adoption incentives will not be earned.

The subcommittee postponed action on this January recommendation. The May Revision proposes to reduce the budget further by $15.9 million ($9.1 million General Fund). The proposal is described as eliminating the cost-of-doing-business increased given to the program since 2000.

Adoptions are the success point of the child welfare system, and the first goal after family reunification. The stability of children and families and the long-term fiscal stability of the child welfare system demand that we not slow or stop adoption activities.

Staff recommendation: The subcommittee could consider some options:
- **Reject the January reduction, the May Revision reduction, and the associated Trailer Bill.**
- **Adopt one or both of the reductions.**
- **Adopt one or both reductions, but suspend their impact pending passage of legislation prioritizing adoption activities within available resources.**

<u>**May Revision Child Welfare Services**</u>

Issue: The January budget provided a cost-of-doing-business increase for Child Welfare Services, which are emergency, in-home care and out-of-home care services for abused and neglected children and their families. This cost is an estimate, based on a uniform percentage increase for local budgets. It is used to cover the costs of utility bills, postage increases, staff salaries, rent increases, and other increases in the entire system of delivering services.

The May Revision reduces the Child Welfare Services budget by $26.2 million ($10.8 million General Fund), eliminating the proposed cost-of-doing business.

In 1998-99, responding to a study designed to determine the adequacy of Child Welfare services staffing to meet professional standards and public policy goals to protect children, reunify families where possible, and provide permanent futures for children, the budget for Child Welfare was augmented by $40.0 million. The funds were intended to be the first of a series of increases to bring the system up to adequacy. In 2000-01, an additional $34.3 million General Funds were added.

The May Revision reduces the CWS budget by $28.1 million, including half the second augmentation ($17.2 million General Fund) and accompanying federal funds.

Staff recommendation: The subcommittee could consider three options:
- **Reject both the withhold of a cost of doing business and the reduction in staffing.**
- **Adopt the reduction in cost of doing business, and rejecting the staffing cut.**
- **Adopt the reduction, pending approval of legislation identifying the reductions in child welfare activities necessary to achieve the savings.**

<u>Adult Protective Services</u>
Issue: The January budget provide a caseload-related increase in expenditures in Adult Protective Services, but reduced the General Fund payments to the program, using an assumption that counties could make more services eligible for federal participation. The May Revision proposes to reduce the budget by $8 million ($5.6 million General Fund), a reduction of 10% to the program. When caseload growth was eliminated from the program last year (approximately a $15 million savings), the Legislature adopted statutory changes permitting the counties to eliminate some activities, but not reducing eligibility. There is no comparable proposed elimination this year.

Staff recommendation: The subcommittee could consider:
- **Restore the reduction proposed in May, for a cost of $5.6 million General Fund.**
- **Adopt the May Revision reduction.**

<u>Cost of Living Adjustment: CalWORKs</u>
Issue: The January budget proposed to provide no COLA for participants in CalWORKs. Current state law requires that California adjust the grant by the amount of the California Necessities Index. COLAs in this program are awarded effective October1.

The May Revision makes no change to January with respect to the COLA.

The cost of meeting current law would be $123.8 million TANF/MOE funds to provide a COLA of 3.74%, effective October 1, 2002. A reduction, delay, or elimination of this COLA would require Trailer Bill Language.

Staff recommendation: The subcommittee could consider three options:

- **Adopt the statutorily-required COLA for $123.8 million TANF/MOE.**
- **Adopt the January budget, which suspend the COLA.**
- **Provide a COLA for one-month only, effective June, 2003, for a cost of $13.8 million TANF/MOE. This would have a minimum effect of $149 million in 2003-04.**

<u>SSI/SSP COLA</u>

Issue: The January budget proposed to provide no COLA for the state portion of the SSI/SSP program. Current state law requires that California adjust the total SSI/SSP grant by the California Necessities Index. The federal SSI portion is increased by the Consumers Price Index, and the difference between the total grant and the SSI portion is the State funded SSP payment. COLAs in this program are awarded effective January 1. The budget does provide funding for the July-December portion of the COLA that was awarded January 2002.

The May Revision continues to propose no COLA for SSP <u>and</u> proposes to withhold the pass-through of the federal COLA on the SSI portion of the grant; this is accomplished by reducing the SSP portion of the grant by the amount of the federal increase. This action represents a savings of $53.7 million in General Fund.

The cost of meeting current law would be $181.9 million to provide a COLA of 3.74%, effective January 1, 2003. A reduction, delay, or elimination of this COLA would require Trailer Bill Language. The impact of the January failure to provide a COLA would be a $19 reduction in the grant of an aged or disabled individual; the May Revise removes an additional $9 from the grant amount that current statute would require.

Staff recommendation: The subcommittee could consider three options:

- **Adopt the statutorily-required COLA for $181.9 million General Fund.**
- **Adopt the January budget, which suspends the state portion of the COLA, for a savings of $127.7 million, estimated in January.**
- **Adopt the January and May Revision proposal, which eliminates the pass-through of the federal COLA, for an additional savings of $58.7 million.**
- **Provide a COLA for one-month only, effective June, 2003, for a cost of $54.3 million. This would have a minimum effect of $255 million in 2003-04.**

May Revision CalWORKS Proposals

Issue: The subcommittee acted on May 9 to adopt a variety of CalWORKs structural proposals, designed to maintain the program structure within current revenues. The May Revision is very similar to the subcommittee's actions, although some of the specific numbers are different due to revised caseload numbers.

- The subcommittee adopted the LAO proposal to move federally eligible Emergency Assistance activities outside CalWORKs and use them to claim federal foster care funds. The May Revision adopts the same proposal: this results in a decrease of $65.5 million in CalWORKs/TANF funds, and an increase of $38.4 million in General Fund to the Child Welfare Services Emergency Assistance IV-E funding, to reflect the state share of the case management services that will now be matched with federal Title IV-E funds. This action has a companion action in the Department of Developmental Services, where the CalWORKs/TANF funds are transferred to offset General Fund expenditures. The May Revision has the state picking up the impact of increasing the county share of costs. Budget Bill language is required to pick up the county share of cost.
- **Staff recommendation: Reverse the subcommittee's action on the LAO proposal to shift EA case management costs outside CalWORKs, and adopt the May Revision proposal, including budget bill language to protect the county share.**
- The subcommittee acted to cap expenditures for Kin-GAP and the remaining non-case-management Emergency Assistance activities at current year levels. The May Revision reaches a balanced CalWORKs budget without taking this action.
- **Staff recommendation: Reverse the subcommittee's action to cap some EA expenditures and Kin-GAP at current year levels.**
- Community College funding is augmented by $20 million in the Community College budget. This proposal has budget bill language in the community colleges budget to permit a match of up to $20 million additional funding. No action is required in the DSS budget.
- Adult Education funding is not restored. No action was taken in this subcommittee's budget, and no further action is required. (The education subcommittee may or may not take further action on this item).
- MOE expenditures are claimed for allowable SSP expenditures for disabled children in CalWORKs families and disabled parents with CalWORKs eligible children. This has the effect of reducing the amount of funds required to meet the TANF MOE requirement.
- **Staff recommendation: Adopt the May Revision on allowable SSP expenditures.**
- Caseload growth and average grant size are increased modestly ($23.6 million additional), offset partially by savings associated with a rate increase in Unemployment Insurance Benefits and the 13-week UI extension of $14.9 million. Additional adjustments are made to reflect changes in the savings associated with the implementation of time limits. Additional adjustments are made to reflect a decrease in Cal Learn costs, a reduction in the costs of vehicle resource limit changes, and a decrease in child care costs.

- **Staff recommendation: Adopt caseload changes and associated fund changes proposed in the May Revision, including budget bill languages establishing a CalWORKs reserve, and a CalWORKs child care reserve.**
- The subcommittee adopted budget bill language to use Mental Health and Substance Abuse Services funding to fund a small outcome system for treatment services; and trailer bill language to develop a test of using a portion of mental health treatment funds to claim federal funds. The May Revision had no comparable elements. The May Revision proposed a $10.7 million increase in substance abuse and mental health services to reflect caseload experience. However, given the subcommittee's rejection of the 'county program grant", these additional funds are available for mental health services, but not for other county employment services. The May Revise proposal to transfer $120 million from county incentives to employment services is thus $8 million less than would be required to comply with the prior subcommittee action to adopt the CWDA employment services budgeting proposal.
- **Staff recommendation: Retain the subcommittee action on mental health and substance abuse, but adopt a change in funding so that $8 million additional funds are transferred from county performance incentive funds to employment services funds to adjust for this increase.**
- The May Revision proposes to retain the January proposal to develop a County Program Grant to give counties more flexibility over some CalWORKs expenditures. The subcommittee rejected this proposal.
- **Staff recommendation: Retain the subcommittee action to reject the County Program Grant.**
- The January budget proposed to recapture $169 in unspent county performance incentives to fund employment services in CalWORKs, which increases the debt owed by the state to counties for earned but unpaid county incentives. Counties requested that an additional $120 million in unspent county performance incentives be added to employment services as a one-time augmentation to provide equitable funding to all counties. The subcommittee adopted both provisions. The May Revision also adopts both provisions. The May Revision proposes that the $120 million for county equity be exempted from current law that would add these funds to the debt owed by the state to counties for incentives, and proposes trailer bill language to do so. The net result of these actions is to leave $310.8 in county performance incentives to be spent according to current law.
- **Staff recommendation: Reject the proposed trailer bill language to exempt the $120 million in performance incentives pursuant to the county proposals from repayment provisions in current law. This issue is better dealt with in the context of next year's restructuring of CalWORKs. Adopt the budget bill language establishing the payment of county incentives at $310.8 million.**
- May Revision Budget Bill language proposes to appropriate $310.8 million of unspent county fiscal incentives back to the counties. This amount represents the estimate of unspent funds after the transfers necessary to fund employment services and CalWORKs generally. CWDA is requesting amendments to the Budget Bill Language to appropriate $310.8 million in fiscal incentives, or the actual amount of unspent incentives after the required transfer, whichever is higher.

- **Staff recommendation: Adopt the May Revision Budget Bill Language with the requested modification.**